

Model Financial Statements
Crown Service Enterprise
2010-11

Prepared under New Zealand equivalents
to International Financial Reporting Standards

March 2011 version 2.0

Audit New Zealand
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FOREWORD

I am pleased to introduce our 2011 update to our New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) model financial statements for Crown entities.

Audit New Zealand's model financial statements highlight our profession's latest thinking in terms of meeting financial reporting and legislative requirements, and providing essential financial statement information.

Focus

The model financial statements have been updated to reflect current good practice and changes to NZ IFRS that apply to the 30 June 2011 financial statements. The main updates to the model are explained on page 5.

The model financial statements have been prepared especially to help guide Crown entities to prepare financial statements that comply with NZ IFRS. The model may also assist in reducing the compliance costs of preparing NZ IFRS-compliant financial statements and contribute to an efficient financial statement audit.

The financial statements included in this model, including certain disclosure requirements of the Crown Entities Act 2004, are only part of what Crown entities are required to include in their annual report.

These model financial statements can be downloaded from our website www.auditnz.govt.nz.

Future updates

We will continue to update these model financial statements to reflect changes in NZ IFRS and evolving good practice in applying NZ IFRS to Crown entities.

We welcome any feedback on the application of this model to Crown entities or any other comments that may help with future updates of the model financial statements. If you have any feedback or comments, please pass these to your Audit New Zealand Manager or Director.

Acknowledgements

I would like to thank the staff who have contributed to these model financial statements, particularly Brett Story, Stephen Lewis, and Robert Cox of the Accounting Technical Team.



Stephen Walker
Executive Director
March 2011

ABOUT THE MODEL FINANCIAL STATEMENTS

Objective

The main objective of this model is to guide Crown entities in preparing financial statements that comply with NZ IFRS.

The model financial statements have been prepared using a fictitious non-company Crown entity, Crown Service Enterprise (CSE).

CSE is a “public benefit entity” for financial reporting purposes. The model is not intended to provide guidance for those Crown entities that are assessed as “profit-oriented entities” for financial reporting purposes.

The model is not intended to provide specific guidance on the statutory reporting requirements for certain types of Crown entities. In particular, the model financial statements do not cover the specific statutory reporting requirements of Tertiary Education Institutions and Crown Research Institutes under their applicable legislation.

The model is not intended to provide specific guidance on the statutory reporting requirements of those entities listed in Schedule 4 of the Public Finance Act 1989 (PFA). Sections 45M to 45O of the PFA detail those sections of the Crown Entities Act 2004 (CEA) that apply to schedule 4 entities.

Main updates to the model

The table below explains the main updates to the model since it was previously published in 2008. Due to the time that has elapsed since the previous publication, we have indicated changes to the model that are relevant for the first-time in the 30 June 2011 financial statements and those that were first relevant to prior year financial statements.

Changes to the model financial statements that are relevant to the 30 June 2011 financial statements

Page number	Note number	Description of change
15	1	Changes in accounting policies – a narrative has been inserted explaining the early adoption of the amendments to NZ IFRS 7 <i>Financial Instruments: Disclosures</i> and the revised NZ IAS 24 <i>Related Party Disclosures</i> .
16	1	Standards, amendments, and interpretations issued that are not yet effective and have not been early adopted – a narrative has been inserted for the new financial instruments standard NZ IFRS 9 <i>Financial Instruments</i> .
26	9	Credit risk disclosures – the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is no longer disclosed as this disclosure requirement has been deleted from the revised NZ IFRS 7.
37	24	Related party transactions – new disclosures have been inserted for the early adoption of the revised NZ IAS 24. The main effect is to increase the level of disclosure for related party transactions with government-related entities.

Changes to the model financial statements that were first relevant to prior year financial statements

Page number	Note number	Description of change
11	-	The previously presented statement of financial performance has been replaced with a statement of comprehensive income. A statement of comprehensive income is required to be prepared under the revised NZ IAS 1 <i>Presentation of Financial Statements</i> .

Page number	Note number	Description of change
11	-	The previous items of "other revenue" and "gains" have been aggregated into a new item "other income" to simplify the presentation of income.
13	-	The format of the statement of changes in equity has been updated to comply with the revised NZ IAS 1.
17	1	Borrowing costs – a disclosure has been added stating the CSE has elected to defer adoption of the revised NZ IAS 23 <i>Borrowing Costs (Revised 2007)</i> .
18	1	Derivative financial instruments – an accounting policy has been added for the current/non-current classification of foreign exchange derivatives.
18	1	Inventories – the accounting policy for inventory held for distribution has been updated for the amendment to NZ IAS 2 <i>Inventories</i> , which changed the measurement of inventory held for distribution to cost, adjusted when applicable for any loss of service potential. The basis for determining the loss in service potential of held for distribution inventory has been disclosed as required by the amended NZ IAS 2.
20	1	Borrowings – a narrative has been added explaining the criteria for classifying borrowings between current and non-current.
20	1	Employee entitlements – an accounting policy has been added for the current/non-current classification of employee entitlements.
22	1	Equity – a narrative has been added explaining the nature and purpose of each reserve within equity to comply with NZ IAS 1.79(b).
27	11	Derivative financial instruments – the fair value disclosures for forward foreign exchange contracts have been improved to better meet the requirements of NZ IFRS 7.27.
27	13	Non-current assets held for sale – the amount of the accumulated revaluation reserves for property classified as held for sale has been disclosed to comply with NZ IFRS 5.38.
29	14	Property, plant, and equipment – the valuation methods and assumption disclosures have been improved to better meet the requirements of NZ IAS 16.77.
31	17	Borrowings – information about loan covenants has been added. The fair value of finance leases has been disclosed to comply with NZ IFRS 7.
37	23	Contingencies – updated information has been provided for the DBP Contributors Scheme contingency disclosure.
40	28B	Fair value hierarchy disclosures – a table and related information has been added for the amended fair value disclosures of NZ IFRS 7 for those instruments measured at fair value in the statement of financial position.
42	28C	Credit quality of financial assets – a table with information about the credit quality of financial assets has been added to better comply with NZ IFRS 7.36(c).
42	28C	Liquidity risk – additional columns of information have been added in the liquidity risk tables.
General	-	Disclosures and notes about the first-year adoption of NZ IFRS have been deleted as this information is not required to be repeated in future financial statements.

Content

Included in the model are:

- a statement of responsibility;
- a statement of comprehensive income;
- a statement of financial position;
- a statement of changes in equity;
- a statement of cash flows;

- a statement of accounting policies; and
- notes to the financial statements.

The model does not include all the information required to be disclosed by the CEA in a Crown entity's annual report. In particular, the model does not include the disclosures required by sections:

- 151(1)(a),(2) – Information that is necessary to enable an informed assessment to be made on the Crown entity's operations and performance for the financial year, including an assessment against the intentions, measures, and standards set out in the statement of intent prepared at the beginning of the year;
- 151(1)(b) – Statement of service performance in accordance with section 153;
- 151(1)(f) – Any direction given by a Minister in writing under any enactment during the financial year;
- 151(1)(g) – Information on compliance with the obligation to be a good employer (including a Crown entity's equal employment opportunity programme);
- 151(1)(i) – Information required by section 20(3), which relates to the enforcement of certain natural person transactions; and
- 151(1)(j) – Information required by section 68(6), which relates to permission to act despite being interested in a matter.

The model has been prepared for an entity that does not have any subsidiaries. If a Crown entity is a parent of a Crown entity group, then the CEA requires the presentation of both parent and consolidated financial statements.

The model has not applied the differential reporting exemptions that may be available to qualifying entities under the differential reporting framework. Appendix A of the *Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime* details the full and partial exemptions available to qualifying entities.

Not all of the accounting policies and notes will be applicable to each Crown entity. The model is not intended to cover all of the possible financial reporting issues that could arise in the sector. Although it is not practical for this model to cover all of the possible financial reporting issues that could arise in a Crown entity, we have included a wide range of accounting policies and notes, including all those that occur commonly in the sector.

The model illustrates a possible financial statement format for a Crown entity. For example, the statement of comprehensive income has been prepared by classifying expenses based on the nature of the expenditure. Alternatively, expenses could be classified based on their function. This is just one example where there may be more than one way of disclosing the information required under NZ IFRS.

While the model provides guidance on disclosure matters, it does not deal with the underlying accounting treatment.

Crown entities will need to make choices about the accounting policies and presentation options appropriate for their circumstances.

The model does not address all the possible recognition, measurement, presentation, and disclosure requirements of NZ IFRS. Crown entities should not use the model as a substitute for referring to individual NZ IFRS standards and interpretations applicable to their specific circumstances.

We have included references to specific standards and legislation in the left margin of the model and a subject index on page 45 for easy searching. References to NZ IFRS are sourced from the January 2010 NZ IFRS volumes.

Standards not covered by the model

The model does not include the recognition, measurement, presentation, or disclosure requirements of the following standards:

- NZ IFRS 1 *First-time Adoption of New Zealand Equivalents International Financial Reporting Standards*;
- NZ IFRS 2 *Share-based Payment*;
- NZ IFRS 3 *Business Combinations*;
- NZ IFRS 6 *Exploration for and Evaluation of Mineral Resources*;
- NZ IFRS 8 *Operating Segments*;
- NZ IAS 11 *Construction Contracts*;
- NZ IAS 12 *Income Taxes*;
- NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans*;
- NZ IAS 27 *Consolidated and Separate Financial Statements*;
- NZ IAS 28 *Investments in Associates*;
- NZ IAS 29 *Financial Reporting in Hyperinflationary Economies*;
- NZ IAS 31 *Interests in Joint Ventures*;
- NZ IAS 33 *Earnings per Share*;
- NZ IAS 34 *Interim Financial Reporting*;
- NZ IAS 40 *Investment Property*; and
- NZ IAS 41 *Agriculture*.

In addition, any standards, interpretations, and amendments issued after 28 February 2011 are not included in the model financial statements.

Terms used in the model

ACC	Accident Compensation Corporation
CEA	Crown Entities Act 2004
GAAP	Generally accepted accounting practice
GST	Goods and Services Tax
IRD	Inland Revenue Department
PFA	Public Finance Act 1989
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards

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CEA s151(1)(d),155 **STATEMENT OF RESPONSIBILITY¹**

The Board is responsible for the preparation of the Crown Service Enterprise's financial statements and statement of service performance, and for the judgements made in them.

The Board of the Crown Service Enterprise has the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the Board's opinion, these financial statements and statement of service performance fairly reflect the financial position and operations of the Crown Service Enterprise for the year ended 30 June 2011.

Signed on behalf of the Board:²

Board member

26 August 2011

Board member

26 August 2011

¹ In addition to the signed statement of responsibility, section 151(3) of the CEA requires the annual report to be dated and signed on behalf of the Board by 2 members or, in the case of a corporation sole, by the sole member.

² Section 155 of the CEA requires the statement of responsibility to be dated and signed on behalf of the Board by 2 members or, in the case of a corporation sole, by the sole member.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011^{3,4,5,6}

NZ IAS 1.10(b)	Notes	Actual	Budget ^{7,8}	Actual ⁹	
NZ IAS 1.113		2011	2011	2010	
		\$000	\$000	\$000	
	Income				
NZ IAS 1.82(a)	Revenue from Crown	2	508,552	508,468	498,080
NZ IFRS 7.20(b)	Interest income		5,226	5,200	4,080
NZ IAS 1.82(a)	Other income	3	19,734	22,680	16,748
NZ IAS 1.85	<i>Total income</i>		533,512	536,348	518,908
	Expenditure				
NZ IAS 1.102	Personnel costs	4	331,814	331,813	325,956
	Depreciation and amortisation expense	14,15	66,803	66,802	63,557
	Capital charge	5	64,160	63,000	52,875
NZ IAS 1.81(b)	Finance costs	6	2,678	2,676	1,800
	Other expenses	7	49,125	63,943	40,020
NZ IAS 1.85	<i>Total expenditure</i>		514,580	528,234	484,208
NZ IAS 1.82(f)	Surplus/(deficit)		18,932	8,114	34,700
	Other comprehensive income				
NZ IAS 1.82(g)	Gain on property revaluations	20	73,397	90,000	52,333
NZ IAS 1.82(g)	Financial assets at fair value through other comprehensive income	20	95	0	110
NZ IAS 1.85	<i>Total other comprehensive income</i>		73,492	90,000	52,443
NZ IAS 1.82(i)	Total comprehensive income		92,424	98,114	87,143

NZ IAS 1 NZ 46.1 Explanations of major variances against budget are provided in note 30.

The accompanying notes form part of these financial statements.

³ Alternatively, a statement displaying components of the surplus/deficit (a statement of financial performance) directly followed by a second statement beginning with surplus/deficit and displaying components of other comprehensive income (a statement of comprehensive income) can be presented.

⁴ NZ IAS 1.87 prohibits any items of income or expense being presented as extraordinary items either in the statement of comprehensive income or in the notes.

⁵ Where there are discontinued operations, NZ IAS 1.82(e) requires disclosure of the total post-tax surplus or deficit of discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell on the disposal of the assets or disposal group(s) constituting the discontinued operation.

⁶ The statement of comprehensive income has been prepared using the nature of expense classification. Alternatively, entities may choose to present expenses based on the function of expense. Refer to NZ IAS 1.103, NZ 103.1.

⁷ NZ IAS 1 NZ 46.1 requires an entity that has published prospective financial information (for example, forecast financial information published in a statement of intent), other than that expressed solely in general terms, to present a comparison of the prospective financial information with the actual financial results. Explanations for major variances shall be given.

⁸ Section 154(3)(c) of the CEA requires the financial statements to "include the forecast financial statements prepared at the start of the financial year, for comparison with the actual financial statements".

⁹ NZ IAS 1.38 requires comparative information to be disclosed in respect of the previous year for all amounts reported in the financial statements. Comparative information shall also be included for narrative information when it is relevant to an understanding of the current year's financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

NZ IAS 1.10(a) NZ IAS 1.57,113	Notes	Actual 2011 \$000	Budget 2011 \$000	Actual 2010 \$000
Assets				
Current assets				
NZ IAS 1.60,66				
NZ IAS 1.54(i)	8	75,078	75,042	56,591
NZ IAS 1.54(h)	9	8,346	6,340	2,530
NZ IAS 1.54(d)	10	3,420	3,400	3,078
NZ IAS 1.54(d)	11	2,900	2,500	1,960
NZ IAS 1.54(g)	12	942	900	1,245
NZ IAS 1.54(j)	13	1,160	0	0
NZ IAS 1.55		1,000	0	1,000
NZ IAS 1.55		92,846	88,182	66,404
Non-current assets				
NZ IAS 1.60,66				
NZ IAS 1.54(d)	10	7,918	7,910	157,648
NZ IAS 1.54(a)	14	863,974	865,232	645,171
NZ IAS 1.54(c)	15	10,594	10,500	8,953
NZ IAS 1.55		882,486	883,642	811,772
NZ IAS 1.55		975,332	971,824	878,176
Liabilities				
Current liabilities				
NZ IAS 1.60,69				
NZ IAS 1.54(k)	16	45,586	46,450	35,769
NZ IAS 1.54(m)	17	9,298	12,000	9,986
NZ IAS 1.54(m)	12	1,740	1,000	2,240
NZ IAS 1.55	18	42,842	47,517	32,514
NZ IAS 1.54(l)	19	3,404	4,578	3,189
NZ IAS 1.55		102,870	111,545	83,698
Non-current liabilities				
NZ IAS 1.60,69				
NZ IAS 1.54(m)	17	15,638	19,916	21,808
NZ IAS 1.55	18	44,591	49,257	46,894
NZ IAS 1.54(l)	19	4,175	8,478	11,162
NZ IAS 1.55		64,404	77,651	79,864
NZ IAS 1.55		167,274	189,196	163,562
NZ IAS 1.55		808,058	782,628	714,614
Equity				
NZ IAS 1.54(r)				
NZ IAS 1.78(e)	20	317,560	286,168	292,108
NZ IAS 1.78(e)	20	489,891	496,000	421,994
NZ IAS 1.78(e)	20	607	460	512
NZ IAS 1.55		808,058	782,628	714,614

The accompanying notes form part of these financial statements.

¹⁰ Contributed capital and retained surpluses shall be presented separately when a Crown entity has the available information.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

NZ IAS 1.10(c) NZ IAS 1.113	Note	Actual 2011 \$000	Budget 2011 \$000	Actual 2010 \$000
Balance at 1 July		714,614	683,494	552,353
<i>Comprehensive income</i>				
NZ IAS 1.106(d) NZ IAS 1.106(d)		18,932	8,114	34,700
		73,492	90,000	52,443
NZ IAS 1.106(a) NZ IAS 1.106(d)		92,424	98,114	87,143
<i>Owner transactions</i>				
		1,020	1,020	75,118
		0	0	0
Balance at 30 June	20	808,058	782,628	714,614

The accompanying notes form part of these financial statements.

¹¹ Disclosure is required only if these transactions took place.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

NZ IAS 1.10(d) NZ IAS 1.113	Notes	Actual 2011 \$000	Budget 2011 \$000	Actual 2010 \$000
NZ IAS 7.10,14,18	Cash flows from operating activities			
NZ IAS 7.14	Receipts from Crown	508,552	508,468	498,080
NZ IAS 7.31	Interest received	5,070	5,200	4,238
NZ IAS 7.14(b)	Receipts from other revenue	18,184	21,480	13,200
NZ IAS 7.14(c)	Payments to suppliers ¹²	(53,993)	(70,705)	(37,563)
NZ IAS 7.14(d)	Payments to employees	(320,499)	(323,813)	(341,760)
NZ IAS 7.31	Interest paid	(2,376)	(1,478)	(1,763)
NZ IAS 7.14	Payments for capital charge	(64,160)	(63,000)	(52,875)
	Goods and services tax (net)	(99)	(50)	(55)
	<i>Net cash flow from operating activities</i>	21 90,679	76,102	81,502
NZ IAS 7.10,16	Cash flows from investing activities			
NZ IAS 7.16(b)	Receipts from sale of property, plant, and equipment	9,809	7,000	694
NZ IAS 7.16(f)	Receipts from sale of investments	177,483	185,000	215,000
NZ IAS 7.16(a)	Purchase of property, plant, and equipment ¹³	(214,209)	(206,222)	(97,250)
NZ IAS 7.16(a)	Purchase of intangible assets	(8,308)	(6,909)	0
NZ IAS 7.16(e)	Acquisition of investments	(28,000)	(24,000)	(202,476)
	<i>Net cash flow from investing activities</i>	(63,225)	(45,131)	(84,032)
NZ IAS 7.10,17	Cash flows from financing activities			
NZ IAS 7.17(a)	Capital contribution	20 1,020	1,020	75,118
NZ IAS 7.17(d)	Payments of finance leases	(2,128)	(2,200)	(10,431)
NZ IAS 7.17(d)	Repayment of loans	(7,859)	(8,749)	(11,412)
	<i>Net cash flow from financing activities</i>	(8,967)	(9,929)	53,275
	Net (decrease)/increase in cash and cash equivalents	18,487	21,042	50,745
	Cash and cash equivalents at the beginning of the year	56,591	54,000	5,846
	Cash and cash equivalents at the end of the year	8 75,078	75,042	56,591

NZ IAS 7 NZ 24.1 The GST (net) component of cash flows from operating activities reflects the net GST paid to and received from the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes and to be consistent with the presentation basis of the other primary financial statements.

NZ IAS 7.43 Equipment totalling \$3,849,000 (2010 \$nil) was acquired by means of finance leases during the year.

The accompanying notes form part of these financial statements.

¹² It is good practice to separately disclose cash outflows from payments to employees and cash outflows from payments to suppliers, although the amounts could be presented in aggregate.

¹³ It is good practice to separately disclose cash flows arising from the acquisition and disposal of property, plant, and equipment and intangible assets. Presenting these cash flows separately provides readers of the financial statements with a clearer linkage between the property, plant, and equipment and intangible asset movement schedules and cash flows arising from acquisitions and disposals.

NZ IAS 1.10(e)

NOTES TO THE FINANCIAL STATEMENTS

1 Statement of accounting policies^{14,15}

REPORTING ENTITY

NZ IAS 1.138(a),(c)

The Crown Service Enterprise (the CSE) is a Crown entity as defined by the Crown Entities Act 2004 and is domiciled in New Zealand. The CSE's ultimate parent is the New Zealand Crown.

NZ IAS 1.138(b)

NZ IAS 1 NZ 15.1(b)

The CSE's primary objective is to provide public services to the New Zealand public, as opposed to that of making a financial return. Accordingly, the CSE has designated itself as a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

NZ IAS 1.51(a),(b),(c)

NZ IAS 10.17

The financial statements for the CSE are for the year ended 30 June 2011, and were approved by the Board on 26 August 2011.

NZ IAS 1.112

BASIS OF PREPARATION

Statement of Compliance

NZ IAS 1 NZ 15.1(a)

The financial statements of the CSE have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

NZ IAS 1 NZ 15.1(d)

The financial statements comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

Measurement base

NZ IAS 1.117(a)

The financial statements have been prepared on a historical cost basis, except where modified by the revaluation of certain items of property, plant, and equipment, and the measurement of equity investments and derivative financial instruments at fair value.

Functional and presentation currency

NZ IAS 1.51(d),(e)

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of the CSE is New Zealand dollars (NZ\$).

Changes in accounting policies

NZ IAS 8 NZ 31.1

There have been no changes in accounting policies during the financial year.

Early adopted amendments to standards

The following amendments to standards have been early adopted:

NZ IFRS 7.44L

- NZ IFRS 7 *Financial Instruments: Disclosures* – The effect of early adopting these amendments is the following information is no longer disclosed:
 - the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated; and
 - the maximum exposure to credit risk by class of financial instrument if the maximum credit risk exposure is best represented by their carrying amount.

NZ IAS 24.28

- NZ IAS 24 *Related Party Disclosures (Revised 2009)* – The effect of early adopting the revised NZ IAS 24 is:
 - more information is required to be disclosed about transactions between the CSE and entities controlled, jointly controlled, or significantly influenced by the Crown;
 - commitments with related parties require disclosure;
 - information is required to be disclosed about any related party transactions with Ministers of the Crown.

¹⁴ The going concern concept is assumed when preparing financial statements. If management is aware of conditions or events that cast doubt over the ability to continue as a going concern, those facts shall be disclosed. If the financial statements are not prepared on a going concern basis, that fact shall also be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

¹⁵ NZ IAS 1.138 requires the following information to be included in the annual report; it does not necessarily have to be in the financial statements: domicile and legal form of the entity, country of incorporation of the entity, address of the entity's registered office, description of operations, principal activities, and name of parent and ultimate parent of the group.

NZ IAS 8.30,31	<p>Standards, amendments, and interpretations issued that are not yet effective and have not been early adopted^{16,17}</p> <p>Standards, amendments, and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the CSE, are:</p> <ul style="list-style-type: none"> • NZ IFRS 9 <i>Financial Instruments</i> will eventually replace NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus/deficit. The new standard is required to be adopted for the year ended 30 June 2014. The CSE has not yet assessed the effect of the new standard and expects it will not be early adopted.
	<p>SIGNIFICANT ACCOUNTING POLICIES¹⁸</p>
NZ IAS 18.35(a)	Revenue
NZ IAS 18.9	Revenue is measured at the fair value of consideration received or receivable.
	<i>Revenue from the Crown</i>
NZ IAS 20.39(b)	The CSE is primarily funded through revenue received from the Crown, which is restricted in its use for the purpose of the CSE meeting its objectives as specified in the statement of intent.
NZ IAS 20.39(a)	Revenue from the Crown is recognised as revenue when earned and is reported in the financial period to which it relates.
	<i>Other grants</i>
NZ IAS 20.39(a)	Non-government grants are recognised as revenue when they become receivable unless there is an obligation to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance and recognised as revenue when conditions of the grant are satisfied.
	<i>Interest</i>
NZ IAS 18.30(a)	Interest income is recognised using the effective interest method. Interest income on an impaired financial asset is recognised using the original effective interest rate.
	<i>Rental income</i>
NZ IAS 17.50	Lease receipts under an operating sublease are recognised as revenue on a straight-line basis over the lease term.
	<i>Sale of publications</i>
NZ IAS 18.14	Sales of publications are recognised when the product is sold to the customer.
	<i>Provision of services</i>
NZ IAS 18.20	Revenue derived through the provision of services to third parties is recognised in proportion to the stage of completion at the balance date. The stage of completion is assessed by reference to surveys of work performed.
	<i>Vested assets</i>
NZ IAS 16 NZ 15.1	Where a physical asset is gifted to or acquired by the CSE for nil or nominal cost, the fair value of the asset received is recognised as income. Such assets are recognised as income when control over the asset is obtained.
Good practice	Certain operations of the CSE are reliant on services provided by volunteers. Volunteer services received are not recognised as revenue or expenditure by the CSE due to the difficulty of measuring their fair value with reliability.
NZ IAS 1.117(b)	Capital charge
	The capital charge is recognised as an expense in the financial year to which the charge relates.

¹⁶ NZ IAS 8.31 requires entities who chose not to apply standards or interpretations issued but not yet effective to disclose this fact, including: the title of the Standard or Interpretation, the nature of the impending change or changes in accounting policy, date by which application of the Standard or Interpretation is required and date at which the entity plans to apply the Standard or Interpretation; and either a discussion of the known impact of the new Standard or Interpretation on the entity in the initial year of application, or, where the impact is not known or reasonably estimatable, a statement to that effect.

¹⁷ Entities will also need to disclose information about those relevant standards, amendments, and interpretations that are issued after 28 February 2011.

¹⁸ Entities are required to disclose all accounting policies that are relevant to an understanding of the financial statements (NZ IAS 1.117(b)).

<p>NZ IAS 1.117(b) NZ IAS 23 NZ 29.1</p>	<p>Borrowing costs</p> <p>The CSE has elected to defer adoption of the revised NZ IAS 23 <i>Borrowing Costs (Revised 2007)</i> in accordance with the transitional provisions of NZ IAS 23 that are applicable to public benefit entities. Consequently, all borrowing costs are recognised as an expense in the financial year in which they are incurred.</p>
<p>NZ IAS 1.117(b) NZ IAS 37 NZ Appdx E</p>	<p>Grant expenditure</p> <p>Non-discretionary grants are those grants awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received.</p> <p>Discretionary grants are those grants where the CSE has no obligation to award on receipt of the grant application and are recognised as expenditure when approved by the grants approval committee and the approval has been communicated to the applicant.</p>
<p>NZ IAS 1.119 NZ IAS 21.21,28</p>	<p>Foreign currency transactions</p> <p>Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into NZ\$ (the functional currency) using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.</p>
<p>NZ IAS 1.117(b)</p>	<p>Leases</p> <p><i>Finance leases</i></p>
<p>NZ IAS 17.4</p>	<p>A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.</p>
<p>NZ IAS 17.20</p>	<p>At the commencement of the lease term, finance leases are recognised as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments.</p>
<p>NZ IAS 17.25</p>	<p>The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.</p>
<p>NZ IAS 17.27</p>	<p>The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether the CSE will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.</p>
<p>NZ IAS 17.33</p>	<p><i>Operating leases</i></p> <p>An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.</p>
<p>NZ SIC 15.5</p>	<p>Lease incentives received are recognised in the surplus or deficit over the lease term as an integral part of the total lease expense.</p>
<p>NZ IAS 7.46</p>	<p>Cash and cash equivalents</p> <p>Cash and cash equivalents includes cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.</p>
<p>NZ IFRS 7.21 NZ IAS 39.43 NZ IAS 39.46(a)</p>	<p>Debtors and other receivables</p> <p>Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.</p>

<p>NZ IAS 39.63 NZ IFRS 7 Appdx B5</p>	<p>Impairment of a receivable is established when there is objective evidence that the CSE will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership or liquidation, and default in payments are considered indicators that the debt is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written-off against the allowance account for receivables. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due).</p>
<p>NZ IFRS 7.21</p>	<p>Investments <i>Bank deposits</i></p>
<p>NZ IAS 39.43</p>	<p>Investments in bank deposits are initially measured at fair value plus transaction costs.</p>
<p>NZ IAS 39.46(a)</p>	<p>After initial recognition investments in bank deposits are measured at amortised cost using the effective interest method, less any provision for impairment.</p>
<p>NZ IAS 39.63</p>	<p>For bank deposits, impairment is established when there is objective evidence that the CSE will not be able to collect amounts due according to the original terms of the deposit. Significant financial difficulties of the bank, probability that the bank will enter into receivership or liquidation, and default in payments are considered indicators that the deposit is impaired.</p>
	<p><i>Equity investments</i></p>
<p>NZ IAS 39.43</p>	<p>The CSE designates equity investments at fair value through other comprehensive income, which are initially measured at fair value plus transaction costs.</p>
<p>NZ IAS 39.46,55(b)</p>	<p>After initial recognition, these investments are measured at their fair value with gains and losses recognised in other comprehensive income, except for impairment losses which are recognised in the surplus or deficit.</p>
<p>NZ IAS 39.55(b)</p>	<p>On derecognition, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the surplus or deficit.</p>
<p>NZ IAS 39.61,67,68</p>	<p>A significant or prolonged decline in the fair value of the investment below its cost is considered objective evidence of impairment. If impairment evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the surplus or deficit) recognised in other comprehensive income is reclassified from equity to the surplus or deficit.</p>
<p>NZ IAS 39.69</p>	<p>Impairment losses recognised in the surplus or deficit are not reversed through the surplus or deficit.</p>
	<p>Derivative financial instruments</p>
	<p>Derivative financial instruments are used to manage exposure to foreign exchange risk arising from its operational activities. The CSE does not hold or issue these financial instruments for trading purposes. The CSE has not adopted hedge accounting.</p>
<p>NZ IAS 39.43,46</p>	<p>Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each balance date with the resulting gain or loss recognised in the surplus or deficit.</p>
<p>NZ IAS 39.55(a)</p>	
<p>NZ IFRS 7.21</p>	<p>The full fair value of a forward foreign exchange derivative is classified as current if the contract is due for settlement within 12 months of balance date; otherwise, foreign exchange derivatives are classified as non-current.</p>
<p>NZ IAS 1.66,69</p>	
<p>NZ IAS 2.36(a)</p>	<p>Inventories</p>
<p>NZ IAS 2 NZ 9.1,10.1</p>	<p>Inventories held for distribution in the provision of services that are not supplied on a commercial basis are measured at cost (using the FIFO method), adjusted, when applicable, for any loss of service potential. The loss of service potential of inventory held for distribution is determined on the basis of obsolescence. Where inventories are acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.</p>
<p>NZ IAS 2 NZ 36.1(e)</p>	
<p>NZ IAS 2.9</p>	<p>Inventories held for use in the provision of goods and services on a commercial basis are valued at the lower of cost (using the FIFO method) and net realisable value.</p>
<p>NZ IAS 2.34, NZ 34.1</p>	<p>The amount of any write-down for the loss of service potential or from cost to net realisable value is recognised in surplus or deficit in the period of the write-down.</p>
<p>NZ IAS 1.117(b)</p>	<p>Non-current assets held for sale</p>
<p>NZ IFRS 5.6</p>	<p>Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.</p>
<p>NZ IFRS 5.15</p>	
<p>NZ IFRS 5.20</p>	<p>Any impairment losses for write-downs of non-current assets held for sale are recognised in the surplus or deficit.</p>

NZ IFRS 5.21	Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.												
NZ IFRS 5.25	Non-current assets held for sale (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.												
NZ IAS 1.117(b)	Property, plant, and equipment												
NZ IAS 16 NZ 5.1	Property, plant, and equipment consists of the following asset classes: land, buildings, leasehold improvements, furniture and office equipment, and motor vehicles.												
NZ IAS 16.73(a)	Land is measured at fair value, and buildings are measured at fair value less accumulated depreciation and impairment losses. All other assets classes are measured at cost, less accumulated depreciation and impairment losses.												
	<i>Revaluations</i>												
NZ IAS 16.31(a)	Land and buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value and at least every 3 years. ¹⁹												
Good practice	The carrying values of revalued assets are assessed annually by independent valuers to ensure that they do not differ materially from fair value. If there is evidence supporting a material difference, then the off-cycle asset classes are revalued.												
NZ IAS 16 NZ 39.1	Land and building revaluation movements are accounted for on a class-of-asset basis.												
NZ IAS 16 NZ 39.2	The net revaluation results are credited or debited to other comprehensive income and is accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive income but is recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive income.												
NZ IAS 16 NZ 40.2													
	<i>Additions</i>												
NZ IAS 16.7	The cost of an item of property, plant, and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the CSE and the cost of the item can be measured reliably.												
	Work in progress is recognised at cost less impairment and is not depreciated.												
NZ IAS 16 NZ 15.1	In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at its fair value as at the date of acquisition.												
	<i>Disposals</i>												
NZ IAS 16.4,68,71	Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit. When revalued assets are sold, the amounts included in revaluation reserves in respect of those assets are transferred to general funds.												
	<i>Subsequent costs</i>												
NZ IAS 16.7	Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the CSE and the cost of the item can be measured reliably.												
NZ IAS 16.12,13	The costs of day-to-day servicing of property, plant, and equipment are recognised in the surplus or deficit as they are incurred.												
NZ IAS 16.73(b),(c)	<i>Depreciation</i> ²⁰												
	Depreciation is provided on a straight-line basis on all property, plant, and equipment other than land, at rates that will write-off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of property, plant, and equipment have been estimated as follows:												
	<table border="0"> <tr> <td>Buildings (including components)</td> <td>25 to 60 years</td> <td>1.6%-4%</td> </tr> <tr> <td>Leasehold improvements</td> <td>10 years</td> <td>10%</td> </tr> <tr> <td>Furniture and office equipment</td> <td>5 years</td> <td>20%</td> </tr> <tr> <td>Motor vehicles</td> <td>5 years</td> <td>20%</td> </tr> </table>	Buildings (including components)	25 to 60 years	1.6%-4%	Leasehold improvements	10 years	10%	Furniture and office equipment	5 years	20%	Motor vehicles	5 years	20%
Buildings (including components)	25 to 60 years	1.6%-4%											
Leasehold improvements	10 years	10%											
Furniture and office equipment	5 years	20%											
Motor vehicles	5 years	20%											
	Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.												
NZ IAS 16.51	The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.												

¹⁹ The maximum revaluation cycle allowable under the Crown accounting policies is five years. It may be appropriate to adopt a shorter revaluation cycle policy.

²⁰ The useful lives and depreciation rates that have been listed are only illustrative. Each entity will need to set these based on their specific circumstances.

NZ IAS 1.117(b)	Intangible assets						
	<i>Software acquisition and development</i>						
NZ IAS 38.27,28	Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.						
NZ IAS 38.66,67	Costs that are directly associated with the development of software for internal use are recognised as an intangible asset. Direct costs include software development employee costs and an appropriate portion of relevant overheads.						
NZ IAS 38.15,29,67,69	Staff training costs are recognised as an expense when incurred.						
	Costs associated with maintaining computer software are recognised as an expense when incurred.						
NZ SIC 32.8	Costs associated with development and maintenance of the CSE's website are recognised as an expense when incurred.						
NZ IAS 38.66,67							
	<i>Amortisation</i>						
NZ IAS 38.97,118(b)	The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each financial year is recognised in the surplus or deficit.						
NZ IAS 38.118(a)	The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:						
	<table border="0"> <tr> <td>Acquired computer software</td> <td>3 years</td> <td>33.3%</td> </tr> <tr> <td>Developed computer software</td> <td>4 years</td> <td>25%</td> </tr> </table>	Acquired computer software	3 years	33.3%	Developed computer software	4 years	25%
Acquired computer software	3 years	33.3%					
Developed computer software	4 years	25%					
NZ IAS 1.117(b)	Impairment of property, plant, and equipment and intangible assets						
NZ IAS 36.9	Property, plant, and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.						
NZ IAS 36.18							
NZ IAS 36 NZ 6.1	Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the CSE would, if deprived of the asset, replace its remaining future economic benefits or service potential.						
NZ IAS 36.22							
NZ IAS 36 NZ 61.1	If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written-down to the recoverable amount. For revalued assets, the impairment loss is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation reserve in equity for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the surplus or deficit.						
NZ IAS 36.60	For assets not carried at a revalued amount, the total impairment loss is recognised in the surplus or deficit.						
NZ IAS 36 NZ 120.1	The reversal of an impairment loss on a revalued asset is credited to other comprehensive income and increases the asset revaluation reserve for that class of asset. However, to the extent that an impairment loss for that class of asset was previously recognised in the surplus or deficit, a reversal of the impairment loss is also recognised in the surplus or deficit.						
NZ IAS 36.119	For assets not carried at a revalued amount, the reversal of an impairment loss is recognised in the surplus or deficit.						
NZ IFRS 7.21	Creditors and other payables						
NZ IAS 39.43	Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.						
NZ IAS 39.47							
NZ IFRS 7.21	Borrowings						
NZ IAS 39.43	Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.						
NZ IAS 39.46(a)							
NZ IAS 1.69	Borrowings are classified as current liabilities unless the CSE has an unconditional right to defer settlement of the liability for at least 12 months after balance date or if the borrowings are expected to be settled within 12 months of balance date.						
NZ IAS 1.117(b)	Employee entitlements						
	<i>Short-term employee entitlements</i>						
NZ IAS 19.10	Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured at nominal values based on accrued entitlements at current rates of pay.						

	These include salaries and wages accrued up to balance date, annual leave earned to but not yet taken at balance date, and sick leave.
NZ IAS 19.14	A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that it will be used by staff to cover those future absences.
NZ IAS 19.17	A liability and an expense is recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation. <i>Long-term employee entitlements</i>
NZ IAS 19.126-131	Employee benefits that are due to be settled beyond 12 months after the end of period in which the employee renders the related service, such as long service leave and retirement gratuities, have been calculated on an actuarial basis. The calculations are based on: <ul style="list-style-type: none"> • likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlement information; and • the present value of the estimated future cash flows. <p>Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows for entitlements. The inflation factor is based on the expected long-term increase in remuneration for employees.</p>
Good practice NZ IAS 1.69	<i>Presentation of employee entitlements</i> Sick leave, annual leave, and vested long service leave are classified as a current liability. Non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.
NZ IAS 1.117(b) NZ IAS 19.44	Superannuation schemes <i>Defined contribution schemes</i> Obligations for contributions to Kiwisaver, the Government Superannuation Fund, and the State Sector Retirement Savings Scheme are accounted for as defined contribution superannuation schemes and are recognised as an expense in the surplus or deficit as incurred.
NZ IAS 19.30(b)(i)	<i>Defined benefit schemes</i> The CSE makes employer contributions to the Defined Benefit Plan Contributors Scheme (the scheme), which is managed by the Board of Trustees of the National Provident Fund. The scheme is a multi-employer defined benefit scheme
NZ IAS 19.30(b)(ii)	Insufficient information is available to use defined benefit accounting, as it is not possible to determine from the terms of the scheme the extent to which the surplus/deficit will affect future contributions by individual employers, as there is no prescribed basis for allocation. The scheme is therefore accounted for as a defined contribution scheme. Further information on this scheme is disclosed in note 23.
NZ IAS 1.117(b) NZ IAS 37.14	Provisions A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.
NZ IAS 37.45,47	Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense and is included in "finance costs".
NZ IAS 37.71	<i>Restructuring</i> A provision for restructuring is recognised when an approved detailed formal plan for the restructuring has either been announced publicly to those affected, or for which implementation has already commenced.
NZ IAS 37.66	<i>Onerous contracts</i> A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, any impairment losses on the assets associated with that contract are recognised.

NZ IFRS 4.37(a)	<p><i>ACC Partnership Programme</i></p> <p>The CSE belongs to the ACC Partnership Programme whereby the CSE accepts the management and financial responsibility for employee work-related illnesses and accidents. Under the program, the CSE is liable for all its claims costs for a period of two years up to a specified maximum amount. At the end of the two-year period, the CSE pays a premium to ACC for the value of residual claims, and from that point the liability for ongoing claims passes to ACC.</p> <p>The liability for the ACC Partnership Programme is measured using actuarial techniques at the present value of expected future payments to be made in respect of the employee injuries and claims up to balance date. Consideration is given to anticipated future wage and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely to possible, the estimated future cash outflows.</p>
Good practice	<p>Equity</p> <p>Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components.</p> <ul style="list-style-type: none"> • general funds; • property revaluation reserves; and • fair value through other comprehensive income reserves. <p><i>Property revaluation reserve</i></p>
NZ IAS 1.79(b)	<p>This reserve relates to the revaluation of property, plant, and equipment to fair value.</p> <p><i>Fair value through other comprehensive reserves</i></p>
NZ IAS 1.79(b)	<p>This reserve comprises the cumulative net change in the fair value of fair value through other comprehensive income financial instruments.</p>
NZ IAS 1.117(b)	<p>Goods and services tax</p> <p>All items in the financial statements are presented exclusive of goods and service tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.</p> <p>The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.</p> <p>The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.</p> <p>Commitments and contingencies are disclosed exclusive of GST.</p>
Good practice	<p>Income tax</p> <p>The CSE is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision has been made for income tax.</p>
Good practice	<p>Budget figures</p> <p>The budget figures are derived from the statement of intent as approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.</p>
Good practice	<p>Cost allocation</p> <p>The CSE has determined the cost of outputs using the cost allocation system outlined below.</p> <p>Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific output.</p> <p>Direct costs are charged directly to outputs. Indirect costs are charged to outputs based on cost drivers and related activity or usage information. Depreciation is charged on the basis of asset utilisation. Personnel costs are charged on the basis of actual time incurred. Property and other premises costs, such as maintenance, are charged on the basis of floor area occupied for the production of each output. Other indirect costs are assigned to outputs based on the proportion of direct staff costs for each output.</p> <p>There have been no changes to the cost allocation methodology since the date of the last audited financial statements.</p>

NZ IAS 1.125

Critical accounting estimates and assumptions²¹

In preparing these financial statements the CSE has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimating the fair value of land and buildings

The significant assumptions applied in determining the fair value of land and buildings are disclosed in note 14.

Estimating useful lives and residual values of property, plant, and equipment

At each balance date, the useful lives and residual values of property, plant, and equipment are reviewed. Assessing the appropriateness of useful life and residual value estimates of property, plant, and equipment requires a number of factors to be considered such as the physical condition of the asset, expected period of use of the asset by the CSE, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will affect the depreciation expense recognised in the surplus or deficit, and carrying amount of the asset in the statement of financial position. The CSE minimises the risk of this estimation uncertainty by:

- physical inspection of assets;
- asset replacement programs;
- review of second hand market prices for similar assets; and
- analysis of prior asset sales.

The CSE has not made significant changes to past assumptions concerning useful lives and residual values.

Retirement and long service leave

Note 18 provides an analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities.

NZ IAS 1.122

Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying accounting policies:

Leases classification

Determining whether a lease agreement is a finance or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the CSE.

Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the statement of financial position as property, plant, and equipment, whereas for an operating lease no such asset is recognised.

The CSE has exercised its judgement on the appropriate classification of equipment leases, and has determined a number of lease arrangements are finance leases.

Non-government grants

The CSE must exercise judgement when recognising grant income to determine if conditions of the grant contract have been satisfied. This judgement will be based on the facts and circumstances that are evident for each grant contract.

2 Revenue from Crown

NZ IAS 20.39(c)

The CSE has been provided with funding from the Crown for specific purposes as set out in its founding legislation and the scope of the relevant government appropriations. Apart from these general restrictions, there are no unfulfilled conditions or contingencies attached to government funding (2010 nil).

²¹ The examples provided are not intended to be exhaustive. Entities will need to consider their own circumstances to ensure that the disclosures of NZ IAS 1 paragraphs 122 and 125 are relevant and complete.

NZ IAS 1.112(c)

3 Other income

	Actual 2011 \$000	Actual 2010 \$000
Other grants received	14,808	12,112
Donated assets	295	1,682
Rental income from property subleases	1,500	500
NZ IAS 1.35,98(c) Net gain on sale of property, plant, and equipment	1,186	114
NZ IFRS 7.20(a)(ii) Net gains on derivative financial instruments	69	752
NZ IAS 21.52(a) Net foreign exchange gains	0	0
Other income	1,876	1,588
Total other income	19,734	16,748

NZ IFRS 5.41

During the year, motor vehicles that had reached a pre-determined mileage were disposed of. The net gain on motor vehicle disposals was \$186,000 (2010 \$114,000). Two adjoining properties located at 102 and 104 Roundabout Drive were disposed of during March 2011 at a gain of \$1,000,000. These properties had been identified as surplus to the CSE's requirements and approval was received to dispose of the properties.²²

NZ IAS 1.112(c)

4 Personnel costs

	Actual 2011 \$000	Actual 2010 \$000
Salaries and wages	304,654	342,999
NZ IAS 19.46 Defined contribution plan employer contributions	19,547	18,364
Increase/(decrease) in employee entitlements	7,613	(35,407)
Total personnel costs	331,814	325,956

Good practice

Employer contributions to defined contribution plans include contributions to Kiwisaver, State Sector Retirement Savings Scheme, the Government Superannuation Fund, and the DBP Contributors Scheme.²³

Good practice

5 Capital charge

The CSE pays a capital charge to the Crown on its taxpayers' funds as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2011 was 7.5% (2010 7.5%).

NZ IAS 1.112(c)

6 Finance costs

	Actual 2011 \$000	Actual 2010 \$000
NZ IFRS 7.20(b) Interest on bank overdraft	0	6
NZ IFRS 7.20(b) Interest on secured loans	1,992	1,318
Interest on finance lease	664	439
NZ IAS 37.60 Discount unwind on provisions	22	37
Total finance costs	2,678	1,800

²² If there are a number of asset sales, a general narrative can be provided.

²³ The schemes listed are not exhaustive. Crown entities may make contributions to other defined contribution plans, including defined benefit plans that are accounted for as defined contribution plans.

NZ IAS 1.112(c)

7 Other expenses²⁴

		Actual 2011 \$000	Actual 2010 \$000
	Fees to principal auditor: ²⁵		
NZ IAS 1 NZ 105.1(a)(i)	- audit fees for financial statement audit	58	51
NZ IAS 1 NZ 105.1(a)(ii)	- audit-related fees for assurance services	5	0
NZ IAS 1.98	Onerous contracts	0	5,122
NZ IAS 1.98	Restructuring costs	0	5,829
	Staff travel	1,934	2,054
NZ IAS 17.35(c)	Operating lease expense	9,190	8,547
NZ IAS 1 NZ 105.2	Donations ²⁶	865	800
NZ IFRS 7.20(e)	Impairment of receivables	2,490	4,283
NZ IFRS 4 Appdx D 17.6.1	ACC Partnership Programme	632	672
NZ IAS 38.126	Website development expenses	3,240	1,904
	Advertising	4,764	2,151
	Consultancy	5,234	3,915
	Grants	12,015	1,294
NZ IAS 21.52(a)	Net foreign exchange losses	1,868	1,010
NZ IAS 2.36(d)	Inventories consumed	999	623
	Other expenses	5,831	1,765
	Total other expenses	49,125	40,020

NZ IAS 1 NZ 105.1(a)(ii) Audit-related fees were for an assurance review over the tendering process for procurement of building renovation services.

NZ IAS 7.45

8 Cash and cash equivalents

		Actual 2011 \$000	Actual 2010 \$000
	Cash at bank and on hand	6,950	4,735
NZ IAS 7.7	Term deposits with maturities less than 3 months	68,128	51,856
	Total cash and cash equivalents	75,078	56,591

NZ IFRS 7.25,29(a) The carrying value of cash at bank and short-term deposits with maturities less than three months approximates their fair value.

²⁴ NZ IAS 1.97 requires that, when items of expense (and income) are material, their nature and amount shall be disclosed separately.

²⁵ NZ IAS 1 NZ 105.1 requires the nature of the services to be disclosed for assurance and related services, tax services, and all other non-audit services provided by the auditor.

²⁶ In the context of reporting by a Crown entity, donations are interpreted as per their common usage (that is, discretionary charitable gifts), and should exclude any grants made in terms of a Crown entity's normal funding programme that seek to achieve the objectives of the entity.

NZ IAS 1.78(b)

9 Debtors and other receivables

	Actual 2011 \$000	Actual 2010 \$000
Debtors and other receivables	10,725	6,645
Less: provision for impairment	(2,379)	(4,115)
Total debtors and other receivables	8,346	2,530

Fair value

NZ IFRS 7.25,29(a)

The carrying value of receivables approximates their fair value.

Impairment

NZ IFRS 7.37(a)

The ageing profile of receivables at year end is detailed below:

	2011			2010		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Not past due	6,021	(725)	5,296	2,248	(980)	1,268
Past due 1-30 days	2,120	(800)	1,320	1,610	(920)	690
Past due 31-60 days	1,120	(625)	495	1,627	(1,325)	302
Past due 61-90 days	1,300	(184)	1,116	950	(710)	240
Past due over 90 days	164	(45)	119	210	(180)	30
Total	10,725	(2,379)	8,346	6,645	(4,115)	2,530

NZ IFRS 7.21

All receivables greater than 30 days in age are considered to be past due.

NZ IFRS 7.37(b)

Due to the large number of receivables, the impairment assessment is generally performed on a collective basis, based on an analysis of past collection history and write-offs.

NZ IFRS 7.16

Movements in the provision for impairment of receivables are as follows:

	Actual 2011 \$000	Actual 2010 \$000
Balance at 1 July	4,115	4,054
Additional provisions made during the year	2,490	4,283
Receivables written off during the year	(4,226)	(4,222)
Balance at 30 June	2,379	4,115

NZ IFRS 7.20(e)

NZ IAS 1.77

10 Investments

	Actual 2011 \$000	Actual 2010 \$000
Current portion		
Term deposits	3,420	3,078
<i>Total current portion</i>	3,420	3,078
Non-current portion		
Term deposits	6,811	156,636
Equity investments	1,107	1,012
<i>Total non-current portion</i>	7,918	157,648
Total investments	11,338	160,726

NZ IFRS 7.20(e)

There is no impairment provision for investments.

NZ IFRS 7.25,27(b)

Equity investments are measured at fair values with fair valued determined by reference to published bid price quotations in an active market.

10 Investments (continued)

- NZ IFRS 7.25,29(a) The carrying amounts of term deposits with maturities less than 12 months approximate their fair value.
- NZ IFRS 7.25,27 The fair value of term deposits with remaining maturities in excess of 12 months is \$6,423,000 (2010 \$153,657,000). The fair values are based on discounted cash flows using market quoted interest rates for term deposits with terms to maturity similar to the relevant investments.

11 Derivative financial instruments

- NZ IFRS 7.34(a) The notional principal amounts of outstanding forward foreign exchange contracts in NZ\$ were \$7,690,000 (2010 \$13,333,333). The foreign currency principal amounts were US\$ nil (2010 US\$10,000,000) and AUS\$6,000,000 (2010 AUS\$ nil).
- NZ IFRS 7.25,27 The fair values of forward foreign exchange contracts have been determined using a discounted cash flows valuation technique based on quoted market prices. The inputs into the valuation model are from independently sourced market parameters such as currency rates. Most market parameters are implied from forward foreign exchange contract prices.

NZ IAS 2.36(b) 12 Inventories

	Actual 2011 \$000	Actual 2010 \$000
<i>Held for distribution inventories</i>		
Emergency stock	117	120
Inventories held for the use in the provision of goods and services	203	252
<i>Commercial inventories</i>		
Publications held for sale	622	873
Total inventories	942	1,245

- NZ IAS 2 NZ 36.1(a) The carrying amount of inventories held for distribution that are measured at current replacement cost amounted to \$124,000 (2010 \$102,000).
- NZ IAS 2 NZ 36.1(b) The write-down of inventories held for distribution amounted to \$26,000 (2010 \$nil). There have been no reversals of write-downs.
- NZ IAS 2 NZ 36.1(c) The write-down of commercial inventories amounted to \$26,000 (2010 \$46,000). There have been no reversals of write-downs.
- NZ IAS 2.36(e),(f) The write-down of commercial inventories amounted to \$26,000 (2010 \$46,000). There have been no reversals of write-downs.
- NZ IAS 2.36(h) No inventories are pledged as security for liabilities (2010 \$nil). However, some inventories are subject to retention of title clauses.

13 Non-current assets held for sale

- NZ IFRS 5.41 The CSE owns land at Round Corner Drive, Taranaki, which has been classified as held for sale following the Boards approval to sell the property, as it will provide no future use to the CSE. The sale is expected to be completed by October 2011.

	Actual 2011 \$000	Actual 2010 \$000
Non-current assets held for sale include:		
Land	1,020	0
Buildings	140	0
Total non-current assets held for sale	1,160	0

- NZ IFRS 5.38 The accumulated property revaluation reserve recognised in equity for the Round Corner Drive property at 30 June 2011 is \$223,000.

14 Property, plant, and equipment

NZ IAS 16.73²⁷

Movements for each class of property, plant, and equipment are as follows:

	Land	Buildings	Furniture and office equipment	Leasehold improvements	Motor vehicles	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Cost or valuation						
Balance at 1 July 2009	200,000	95,269	113,376	89,600	134,976	633,221
Additions	45,662	23,825	24,000	10,000	3,000	106,487
Revaluation increase	46,876	2,073	0	0	0	48,949
Disposals	0	0	0	(36,000)	(10,000)	(46,000)
Balance at 30 June 2010	292,538	121,167	137,376	63,600	127,976	742,657
Balance at 1 July 2010	292,538	121,167	137,376	63,600	127,976	742,657
Additions	136,270	31,990	24,578	22,487	0	215,325
Revaluation increase	69,940	906	0	0	0	70,846
Disposals	(8,497)	0	0	0	(2,000)	(10,497)
Transfer to assets held for sale	(1,020)	(142)	0	0	0	(1,162)
Balance at 30 June 2011	489,231	153,921	161,954	86,087	125,976	1,017,169
Accumulated depreciation and impairment losses						
Balance at 1 July 2009	0	953	41,127	37,320	10,000	89,400
Depreciation expense	0	2,431	9,626	12,311	32,522	56,890
Elimination on disposal	0	0	0	(36,000)	(9,420)	(45,420)
Elimination on revaluation	0	(3,384)	0	0	0	(3,384)
Balance at 30 June 2010	0	0	50,753	13,631	33,102	97,486
Balance at 1 July 2010	0	0	50,753	13,631	33,102	97,486
Depreciation expense	0	2,553	10,463	13,476	33,644	60,136
Elimination on disposal	0	0	0	0	(1,874)	(1,874)
Elimination on revaluation	0	(2,551)	0	0	0	(2,551)
Transfer to assets held for sale	0	(2)	0	0	0	(2)
Impairment losses	0	124	0	0	0	124
Reversal of impairment losses	0	(124)	0	0	0	(124)
Balance at 30 June 2011	0	0	61,216	27,107	64,872	153,195
Carrying amounts						
At 1 July 2009	200,000	94,316	72,249	52,280	124,976	543,821
At 30 June and 1 July 2010	292,538	121,167	86,623	49,969	94,874	645,171
At 30 June 2011	489,231	153,921	100,738	58,980	61,104	863,974

NZ IAS 16.74(a)

The CSE owns a building in Wellington, which is restricted for Government or reserve use. The carrying amount of the building is \$525,000 (2010 \$512,000).

NZ IAS 16.74(b)

The total amount of property, plant, and equipment in the course of construction is \$2,045,000 (2010 \$nil).

NZ IAS 36.130

An impairment of \$124,000 (2010 \$nil) was recognised for a building that was damaged due to an earthquake that occurred in January 2011. The recoverable amount of the building was its fair value less costs to sell, which was determined by reference to an active market that took into account the costs to repair the damage. A total of \$116,000 in compensation has been received from an insurance claim for the damaged building and is included as part of other income in note 3. The impairment of this building was subsequently reversed following completion of repair work.

NZ IAS 17.31(a)

The net carrying amount of office equipment held under finance leases is \$6,672,000 (2010 \$5,432,000)

²⁷ This is just one way of presenting the reconciliation required by NZ IAS 16 *Property, Plant and Equipment*.

14 Property, plant, and equipment (continued)

NZ IAS 16.77, NZ 77.2

Valuation

The total fair value of property valued by R Holt of O'Connell Valuers Limited amounted to \$641,107,000 (2010 \$413,705,000).

NZ IAS 1.125

Land

Land is valued at fair value using market-based evidence based on its highest and best use with reference to comparable land values. Adjustments have been made to the "unencumbered" land value for land where there is a designation against the land or the use of the land is restricted because of reserve or endowment status. These adjustments are intended to reflect the negative effect on the value of the land where an owner is unable to use the land more intensely.

Restrictions on the CSE's ability to sell land would normally not impair the value of the land because the CSE has operational use of the land for the foreseeable future and will substantially receive the full benefits of outright ownership.

The most recent valuation of land was performed by a registered independent valuer, R Holt of O'Connell Valuers Limited, and the valuation is effective as at 30 June 2011.

Buildings

Specialised buildings are valued at fair value using depreciated replacement cost because no reliable market data is available for such buildings.

Depreciated replacement cost is determined using a number of significant assumptions. Significant assumptions include:

- The replacement asset is based on the reproduction cost of the specific assets with adjustments where appropriate for optimisation due to over-design or surplus capacity.
- The replacement cost is derived from recent construction contracts of similar assets and Property Institute of New Zealand cost information.
- The remaining useful life of assets is estimated.
- Straight-line depreciation has been applied in determining the depreciated replacement cost value of the asset.

Non-specialised buildings (for example, residential buildings) are valued at fair value using market-based evidence. Market rents and capitalisation rates were applied to reflect market value.

The most recent valuation of buildings was performed by a registered independent valuer, R Holt of O'Connell Valuers Limited, and the valuation is effective as at 30 June 2011.

15 Intangible assets

NZ IAS 38.118(e)

Movements for each class of intangible asset are as follows:²⁸

	Acquired software	Internally generated software	Total
	\$000	\$000	\$000
Cost			
Balance at 1 July 2009	5,000	15,000	20,000
Additions	0	0	0
Disposals	0	0	0
Balance at 30 June 2010/1 July 2010	5,000	15,000	20,000
Additions	2,077	6,231	8,308
Disposals	0	0	0
Balance at 30 June 2011	7,077	21,231	28,308

²⁸ NZ IAS 38.118 requires entities to distinguish between internally generated intangible assets and other intangible assets. For example, internally developed software shall be distinguished from acquired software.

15 Intangible assets (continued)

	Acquired software \$000	Internally generated software \$000	Total \$000
Accumulated amortisation and impairment losses			
Balance at 1 July 2009	1,095	3,285	4,380
Amortisation expense	1,667	5,000	6,667
Disposals	0	0	0
Impairment losses	0	0	0
Balance at 30 June 2010/1 July 2010	2,762	8,285	11,047
Amortisation expense	1,667	5,000	6,667
Disposals	0	0	0
Impairment losses	0	0	0
Balance at 30 June 2011	4,429	13,285	17,714
Carrying amounts			
At 1 July 2009	3,905	11,715	15,620
At 30 June and 1 July 2010	2,238	6,715	8,953
At 30 June 2011	2,648	7,946	10,594

NZ IAS 38.122(d)

There are no restrictions over the title of the CSE's intangible assets, nor are any intangible assets pledged as security for liabilities.

NZ IAS 1.77

16 Creditors and other payables

	Actual 2011 \$000	Actual 2010 \$000
Creditors	21,710	19,634
Income in advance	880	945
Accrued expenses	12,886	6,754
Other payables	10,110	8,436
Total creditors and other payables	45,586	35,769

NZ IFRS 7.25,29(a)

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms. Therefore, the carrying value of creditors and other payables approximates their fair value.

NZ IAS 1.77

17 Borrowings

	Actual 2011 \$000	Actual 2010 \$000
Current portion		
Finance leases	2,312	2,128
Secured loans	6,986	7,858
<i>Total current portion</i>	9,298	9,986
Non-current portion		
Finance leases	5,048	3,578
Secured loans	10,590	18,230
<i>Total non-current portion</i>	15,638	21,808
Total borrowings	24,936	31,794

NZ IAS 1.69

NZ IAS 1.69

17 Borrowings (continued)

Secured loans

NZ IFRS 7.31 Secured loans are issued at floating rates of interest, with interest rates reset quarterly based on the 90-day bank bill rate plus a margin for credit risk.

NZ IAS 1.67(a) Subsequent to balance date, \$3,000,000 of the current portion of secured loans were refinanced. The loans were refinanced for a 3-year period at a floating rate of interest set quarterly at the 90-day bank bill rate plus a margin for credit risk. The CSE anticipates that the remaining amount of the current portion will be refinanced on similar terms.

Security

NZ IAS 16.74(a) The secured loans are secured by a first registered mortgage over land and buildings.

NZ IAS 16.74(a) Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. The net carrying amount of assets held under finance lease is disclosed in note 14.

Secured loan covenants

NZ IFRS 7.31 The CSE is required to ensure that the following financial covenant ratios for secured loans are achieved during the year:

- Total liabilities do not exceed 70% of total tangible assets.
- Total liabilities plus contingent liabilities do not exceed 75% of tangible assets.
- The surplus before interest, depreciation, and amortisation is greater than 1.5 times interest expense on the secured loans.

The secured loans become repayable on demand in the event these covenants are breached or if interest and principal payments are not made when they fall due. The CSE has complied with all covenants and loan repayment obligations during the financial year.

Fair value

NZ IFRS 7.25 Due to interest rates on floating rate debt resetting to the market rate every three months, the carrying amounts of secured loans approximate their fair value.

NZ IFRS 7.25, 27(a) The fair value of finance leases is \$7,860m (2010 \$6,201m). Fair value has been determined using contractual cash flows discounted using a rate based on market borrowing rates at balance date ranging from 5.6% to 6.2% (2010 6.4% to 7.3%)

Analysis of finance leases

	Actual 2011 \$000	Actual 2010 \$000
NZ IAS 17.31(b)	Minimum lease payments payable:	
	2,497	2,324
	5,452	3,910
	0	0
	7,949	6,234
	(589)	(528)
	7,360	5,706
NZ IAS 17.31(b)	Present value of minimum lease payments payable:	
	2,312	2,128
	5,048	3,578
	0	0
	7,360	5,706

Description of leasing arrangements

NZ IAS 17.31(a) Finance leases have been entered into for various items of plant and equipment. The net carrying amount of the leased items within each class of property, plant, and equipment is shown in note 14.

NZ IAS 17.31(e)(ii) Finance leases can be renewed at the CSE's option, with rents set by reference to current market rates for items of equivalent age and condition. The CSE does not have the option to purchase the asset at the end of the lease term.

NZ IAS 17.31(e)(iii) The CSE is not permitted to pledge the leased assets as security nor can it sublease the leased equipment without the permission of the lessor. There are no other restrictions placed on the CSE by any of the leasing arrangements.

NZ IAS 1.77

18 Employee entitlements

	Actual 2011 \$000	Actual 2010 \$000
Current portion		
Accrued salaries and wages	9,710	9,298
Annual leave	30,214	20,160
Sick leave	1,434	2,054
Retirement and long service leave	1,484	1,002
<i>Total current portion</i>	42,842	32,514
Non-current portion		
Retirement and long service leave	44,591	46,894
<i>Total non-current portion</i>	44,591	46,894
Total employee entitlements	87,433	79,408

NZ IAS 1.125

The present value of retirement and long service leave obligations depend on a number of factors that are determined on an actuarial basis. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability. Expected future payments are discounted using forward discount rates derived from the yield curve of New Zealand government bonds. The discount rates used have maturities that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns and after obtaining advice from an independent actuary. A weighted average discount rate of 5.8% (2010 5.4%) and an inflation factor of 2.5% (2010 2.5%) were used.

If the discount rate were to differ by 1% from that used, with all other factors held constant, the carrying amount of the retirement and long service leave liability would be an estimated \$1,893,000 higher/lower.

If the salary inflation factor were to differ by 1% from that used, with all other factors held constant, the carrying amount of the retirement and long service leave liability would be an estimated \$1,675,000 higher/lower.

NZ IAS 1.77

19 Provisions

	Actual 2011 \$000	Actual 2010 \$000
Current portion		
Restructuring	1,913	986
Lease make-good	381	534
Onerous contracts	600	1,189
ACC Partnership Programme	510	480
<i>Total current portion</i>	3,404	3,189
Non-current portion		
Restructuring	706	4,521
Lease make-good	1,820	3,222
Onerous contracts	1,439	3,207
ACC Partnership Programme	210	212
<i>Total non-current portion</i>	4,175	11,162
Total provisions	7,579	14,351

19 Provisions (continued)

NZ IAS 37.84

Movements for each class of provision are as follows:²⁹

	Restructuring	Lease make-good	Onerous contracts	ACC Partnership Programme	Total
	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2009	0	350	0	502	852
Additional provisions made	5,829	3,579	5,122	672	15,202
Amounts used	(325)	(175)	(758)	(482)	(1,740)
Unused amounts reversed	0	0	0	0	0
Discount unwind (note 6)	3	2	32	0	37
Balance at 30 June 2010	5,507	3,756	4,396	692	14,351
Balance at 1 July 2010	5,507	3,756	4,396	692	14,351
Additional provisions made	0	0	0	632	632
Amounts used	(2,894)	(1,558)	(2,370)	(604)	(7,426)
Unused amounts reversed	0	0	0	0	0
Discount unwind (note 6)	6	3	13	0	22
Balance at 30 June 2011	2,619	2,201	2,039	720	7,579

NZ IAS 37.85

Restructuring provision

The CSE's Board approved a detailed and formal restructuring plan, which was announced in May 2010. The restructuring commenced in June of that year. The restructuring plan and associated payments are expected to be completed by October 2012. The provision represents the estimated cost for redundancy payments arising from the restructure.

NZ IAS 37.85

Lease make-good provision

In respect of a number of its leased premises, the CSE is required at the expiry of the lease term to make good any damage caused to the premises and to remove any fixtures or fittings installed by the CSE. In many cases, the CSE has the option to renew these leases, which affects the timing of expected cash outflows to make-good the premises. The cash-flows associated with the non-current portion of the lease make-good provision are expected to occur in May and June 2015. Information about CSE's leasing arrangements is disclosed in note 22.

NZ IAS 37.85

Onerous contracts provision

The CSE has a non-cancellable lease for office space that is no longer used by the CSE due to restructuring. The lease does not expire until 30 June 2015. The building has been sublet for the remaining portion of the lease. However, a change in the market conditions has resulted in the rental expense being greater than the rental income received from subleasing. A provision has been recognised for the obligation of the future discounted rental payments net of anticipated assumed rental income.

ACC Partnership Programme³⁰

Liability valuation

NZ IFRS 4 D17.8A

An external independent actuarial valuer, DW Smith, has calculated the liability as at 30 June 2011. The actuary has attested he is satisfied as to the nature, sufficiency, and accuracy of the data used to determine the outstanding claims liability. There are no qualifications contained in the actuary's report.

Risk margin

NZ IFRS 4 D17.2(c)

A risk margin of 25% (2010 25%) has been assessed to allow for the inherent uncertainty in the central estimate of the claims liability.

NZ IFRS 4 D17.2(e)

The risk margin has been determined after consideration of past claims history, costs, and trends.

NZ IFRS 4 D17.2(d)

The risk margin is intended to achieve a 75% probability of the liability being adequate to cover the cost of injuries and illnesses that have occurred up to balance date.

²⁹ Disclosure of comparative figures for provisions is good practice and is not required (NZ IAS 37.84).

³⁰ Where the ACC Partnership Programme liability is material to a Crown entity, the disclosure requirements of NZ IFRS 4 *Insurance Contracts* must be met.

19 Provisions (continued)

Key assumptions

NZ IFRS 4 D17.6.1(c)
NZ IFRS 4 D17.2(g)
NZ IFRS 4 D17.8A(d)

The key assumptions used in determining the outstanding claims liability are:

- the average assumed rate of inflation of 2.5% for 30 June 2012 and 2013;
- a weighted average discount factor of 5.8% for 30 June 2012 and 6.4% for 30 June 2013 that has been applied to future payment streams; and
- claim inception rates are based on analysis of historical claim experience of the CSE. It has been assumed that 5% of claims will result in no payment, 80% will result in medical claims, and 15% will result in an element of time off work.

Insurance risk

NZ IFRS 4 D17.7.1(b)

The CSE operates the Full Self Cover Plan. Under this plan it assumes full financial and injury management responsibility for work-related injuries and illnesses for a selected management period and continuing financial liability for the life of the claim to a pre-selected limit.

The CSE is responsible for managing claims for a period of up to 24 months since the lodgement date. At the end of 24 months, if an injured employee is still receiving entitlements, the financial and management responsibility of the claim will be transferred to ACC for a price calculated on an actuarial valuation basis.

A stop loss limit of 200% of the industry premium is used. The stop loss limit means the CSE will carry the total cost of claims only up to a total of \$750,000.

20 Equity

		Actual 2011 \$000	Actual 2010 \$000
NZ IAS 1.106(d)	General funds		
	Balance at 1 July	292,108	182,290
NZ IAS 16.41	Property revaluation reserve transfer on disposal	5,500	0
	Surplus/(deficit) for the year	18,932	34,700
	Capital contribution	1,020	75,118
	Repayment of capital	0	0
	Balance at 30 June	317,560	292,108
NZ IAS 1.106(d)	Property revaluation reserves		
	Balance at 1 July	421,994	369,661
NZ IAS 36 NZ 61.1	Impairment charges	(124)	0
NZ IAS 36 NZ 120.1	Reversal of impairment	124	0
NZ IAS 16.77(f)	Revaluations	73,397	52,333
NZ IAS 16.41	Transfer to general funds on disposal	(5,500)	0
	Balance at 30 June	489,891	421,994
Good practice	Property revaluation reserves consist of:		
	Land	441,065	376,625
	Buildings	48,826	45,369
	<i>Total property revaluation reserves</i>	489,891	421,994

20 Equity (continued)

		Actual 2011 \$000	Actual 2010 \$000
NZ IAS 1.106(d)	Financial assets at fair value through other comprehensive income reserves		
	Balance at 1 July	512	402
NZ IFRS 7.20(a)(ii)	Revaluations	95	110
NZ IFRS 7.20(a)(ii)	Transfer to surplus/deficit on disposal	0	0
	Balance at 30 June	607	512
	Total equity	808,058	714,614

21 Reconciliation of net surplus/(deficit) to net cash flow from operating activities

		Actual 2011 \$000	Actual 2010 \$000
	Net surplus/(deficit)	18,932	34,700
NZ IAS 7 NZ 20.2(a)	Add/(less) non-cash items		
	Depreciation and amortisation expense	66,803	63,557
	Donated assets income	(295)	(1,682)
	Net (gains)/losses on derivative financial instruments	(69)	(752)
	Net foreign exchange (gains)/losses	1,868	1,010
	<i>Total non-cash items</i>	68,307	62,133
NZ IAS 7 NZ 20.2(c)	Add/(less) items classified as investing or financing activities		
	(Gains)/losses on disposal of property, plant, and equipment	(1,186)	(114)
	<i>Total items classified as investing or financing activities</i>	(1,186)	(114)
NZ IAS 7 NZ 20.2(b)	Add/(less) movements in statement of financial position items		
	Debtors and other receivables ³¹	(5,816)	8,311
	Inventories	303	560
	Creditors and other payables ³²	8,886	(2,180)
	Provisions	(6,772)	13,499
	Employee entitlements	8,025	(35,407)
	<i>Net movements in working capital items</i>	4,626	(15,217)
	Net cash flow from operating activities	90,679	81,502

³¹ Any debtors or accruals for the sale of property, plant, and equipment will need to be excluded when calculating this movement.

³² Any creditors and accruals for capital expenditure will need to be excluded when calculating this increase or decrease.

22 Capital commitments and operating leases

	Actual 2011 \$000	Actual 2010 \$000
Capital commitments		
NZ IAS 16.74(c) Property, plant, and equipment	258	0
NZ IAS 38.122(e) Intangible assets	1,245	0
Total capital commitments	1,503	0

Capital commitments represent capital expenditure contracted for at balance date but not yet incurred.

Operating leases as lessee

NZ IAS 17.35(a) The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

	Actual 2011 \$000	Actual 2010 \$000
NZ IAS 17.35(a)(i) Not later than one year	9,422	9,190
NZ IAS 17.35(a)(ii) Later than one year and not later than five years	27,570	33,025
NZ IAS 17.35(a)(iii) Later than five years	0	0
Total non-cancellable operating leases	36,992	41,595

NZ IAS 17.35(d) The CSE leases two properties, one of which has been sublet due to it being surplus to requirements. Both the lease and the sublease expire on 30 June 2015. The CSE has recognised a provision of \$2,039,000 (2010 \$4,396,000) in respect of this lease (refer note 19).

NZ IAS 17.35(d)(ii) A significant portion of the total non-cancellable operating lease expense relates to the lease of two floors of an office building. The lease expires in April 2015, with an option to vacate the premises at the lease renewal date of April 2012. The CSE has assumed it will not vacate the premises at the lease renewal date of April 2012. The CSE does not have the option to purchase the asset at the end of the lease term.

NZ IAS 17.35(d)(iii) There are no restrictions placed on the CSE by any of its leasing arrangements.

NZ IAS 17.35(b) Total future minimum sublease payments to be received under non-cancellable subleases for office space at the balance date are \$9,200,000 (2010 \$13,050,000).³³

23 Contingencies

Contingent liabilities

Lawsuit

NZ IAS 37.86(a),(b) The CSE has a contingent liability relating to legal action instigated by a former employee. The claimant is seeking \$75,000 (2010 \$nil) in damages.

Management in conjunction with the Board are vigorously defending the charges and are confident that the CSE will not be found liable.

³³ If a Crown entity has material operating leases as a lessor, it must fully comply with the disclosure requirements of NZ IAS 17.56.

23 Contingencies (continued)

Superannuation schemes

NZ IAS 19.30(b)(iii) The CSE is a participating employer in the DBP Contributors Scheme (the Scheme), which is a multi-employer defined benefit scheme. If the other participating employers ceased to participate in the Scheme, the CSE could be responsible for any deficit of the Scheme. Similarly, if a number of employers ceased to participate in the Scheme, the CSE could be responsible for an increased share of any deficit.

As at 31 March 2010, the Scheme had a past service surplus of \$43.601million (exclusive of Employer Superannuation Contribution Tax). This surplus was calculated using a discount rate equal to the expected return on net assets, but otherwise the assumptions and methodology were consistent with the requirements of NZ IAS 19.³⁴

The actuary of the Scheme has recommended that the employer contributions are suspended with effect from 1 April 2011.

Contingent assets

NZ IAS 37.89 The CSE has no contingent assets (2010 \$nil).³⁵

24 Related party transactions

All related party transactions have been entered into on an arms' length basis.³⁶

NZ IAS 24.26(a) The CSE is a wholly-owned entity of the Crown.

NZ IAS 24.26(b)(i) *Significant transactions with government-related entities*³⁷

The CSE has been provided with funding from the Crown of \$508m (2010 \$498m) for specific purposes as set out in its founding legislation and the scope of the relevant government appropriations.

NZ IAS 24.26(b)(ii) *Collectively, but not individually, significant, transactions with government-related entities*³⁸

In conducting its activities, the CSE is required to pay various taxes and levies (such as GST, FBT, PAYE, and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The CSE is exempt from paying income tax.

The CSE also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2011 totalled \$3.2 million (2010 \$4.1 million). These purchases included the purchase of electricity from Genesis, air travel from Air New Zealand, and postal services from New Zealand Post.

Key management personnel

NZ IAS 24.18 The following transactions were entered into during the year with key management personnel:

- The CSE purchased legal services of \$12,000 (2010 \$13,000) from Legal Limited, a legal firm of which Director 1 is the managing partner. The services were in relation to advice over a claim made by a former employee of CSE.
- The CSE purchased goods and services in the previous year of \$195,950 from City Development Limited, a company of which Director 4's wife is a controlling shareholder. No such purchases were made in the current year.
- The CSE contracted with Enterprise Services Limited, a company of which Director 1 has joint control, before year end to provide certain advice on economic matters for a fixed fee of \$32,000. As at 30 June 2011, no service has yet been received under the contract.
- The CSE contracted with Construction Company Limited, a company of which the Minister of Enterprise's son is the sole shareholder. The value of the contract works totalled \$150,000 (2010 \$nil). There were no amounts outstanding at year end (2010 \$nil).
- There are close family members of key management personnel employed by the CSE. The terms and conditions of those arrangements are no more favourable than the CSE would have adopted if there were no relationship to key management personnel.

³⁴ NZ IAS 19.30(c) requires that where there is a surplus or deficit in a scheme that may affect the amount of future contributions, an entity must disclose any available information about the surplus or deficit, the basis used to determine the surplus or deficit, and the implications, if any, for the entity.

³⁵ Where no contingent assets exist, it is good practice to state that fact.

³⁶ Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated (NZ IAS 24.23).

³⁷ The nature and amount of each individually significant transaction with a government-related entity shall be separately disclosed (NZ IAS 24.26(b)(i)). The significance of a transaction is assessed both on its size and nature.

³⁸ A qualitative or quantitative indication of the extent of collectively, but not individually, significant, transactions with government-related entities shall be disclosed (NZ IAS 24.26(b)(ii)).

24 Related party transactions (continued)

NZ IAS 24.17

Key management personnel compensation

	Actual 2011 \$000	Actual 2010 \$000
NZ IAS 24.17(a)	1,272	1,241
NZ IAS 24.17(b)	22	22
NZ IAS 24.17(c)	24	14
NZ IAS 24.17(d)	0	0
NZ IAS 24.17	1,318	1,277

Good practice

Key management personnel include all board members, the Chief Executive, and the remaining 6 members of the CSE Leadership Team.^{39,40}

CEA s152(1)(a)⁴¹

25 Board member remuneration

The total value of remuneration paid or payable to each Board member during the year was:

	Actual 2011 \$000	Actual 2010 \$000
Director 1 (Chairperson) ⁴²	85	82
Director 2	75	71
Director 3	75	71
Director 4	75	71
Total Board member remuneration	310	295

CEA s152(1)(b)

There have been no payments made to committee members appointed by the Board who are not Board members during the financial year.

CEA s152(1)(e)

The CSE has provided a deed of indemnity to Directors for certain activities undertaken in the performance of the CSE's functions.

CEA s152(1)(f)

The CSE has effected Directors' and Officers' Liability and Professional Indemnity insurance cover during the financial year in respect of the liability or costs of Board members and employees.

CEA s152(1)(d)

No Board members received compensation or other benefits in relation to cessation (2010 \$nil).

³⁹ Disclosing the composition of key management personnel provides useful contextual information to readers as to who are key management personnel.

⁴⁰ NZ IAS 24 defines key management personnel as "those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity". For a Crown entity, we would expect the compensation of the Board, Chief Executive and members of the senior management team, or equivalent body, to be included in the key management personnel disclosures. There may also be other individuals who meet the key management personnel definition of NZ IAS 24. Crown entities will need to consider their specific facts and circumstances in determining the individuals that shall be included in the key management personnel compensation disclosures.

⁴¹ The disclosures required by section 152 of the Crown Entities Act 2004 shall be made in the annual report. It is good practice to include these disclosures in the financial statements section of the annual report.

⁴² The actual names of Directors will need to be included in this disclosure.

CEA s152(1)(c)

26 Employee remuneration⁴³

	Actual 2011	Actual 2010
Total remuneration paid or payable:		
\$100,000 – 109,999	5	6
\$110,000 – 119,999	4	3
\$120,000 – 129,999	3	2
\$130,000 – 139,999	1	0
\$140,000 – 149,999	0	1
\$150,000 – 159,999	1	1
\$160,000 – 169,999	1	0
Total employees	15	13

CEA s152(1)(d)

During the year ended 30 June 2011, 2 (2010: 3) employees received compensation and other benefits in relation to cessation totalling \$225,000 (2010 \$174,000).⁴⁴

27 Events after the balance date

NZ IAS 10.19.21

There were no significant events after the balance date.

28 Financial instruments

NZ IFRS 7.8

28A Financial instrument categories

The carrying amounts of financial assets and liabilities in each of the NZ IAS 39 categories are as follows:

	Actual 2011 \$000	Actual 2010 \$000	
	Fair value through surplus or deficit – Held for trading⁴⁵		
NZ IFRS 7.8(a)(ii)	Derivative financial instrument assets	2,900	1,960
NZ IFRS 7.8(e)(ii)	Derivative financial instrument liabilities	1,740	2,240
	Loans and receivables		
NZ IFRS 7.8(c)	Cash and cash equivalents	75,078	56,591
	Debtors and other receivables	8,346	2,530
	Investments – term deposits	10,231	159,714
	<i>Total loans and receivables</i>	93,655	218,835
	Financial assets at fair value through other comprehensive income		
NZ IFRS 7.8(d)	Investments – equity investments	1,107	1,012
	Financial liabilities measured at amortised cost		
NZ IFRS 7.8(f)	Creditors and other payables (excluding income in advance)	44,706	34,824
	Borrowings – secured loans	17,576	26,088
	<i>Total financial liabilities measured at amortised cost</i>	62,282	60,912

⁴³ For the purposes of total remuneration paid or payable, the remuneration which should be considered includes the following elements: salary, cash allowances, bonuses, incentive payments, and other benefits included in the employee's total remuneration package. For example, superannuation contributions, medical insurance, and motor vehicles.

⁴⁴ Where no payments have been made, it is good practice to state this fact.

⁴⁵ A separate total must also be presented for financial assets and financial liabilities that have been designated at initial recognition at fair value through surplus or deficit.

28B Fair value hierarchy

For those instruments recognised at fair value in the statement of financial position, fair values are determined according to the following hierarchy:

- Quoted market prices (level 1) – Financial instruments with quoted prices for identical instruments in active markets.
- Valuation techniques using observable inputs (level 2) – Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Valuation techniques with significant non-observable inputs (level 3) – Financial instruments valued using models where one or more significant inputs are not observable.

NZ IFRS 7.27B(a)

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the statement of financial position.⁴⁶

	Total	Valuation technique		
		Quoted market price	Observable inputs	Significant non-observable inputs
	\$000	\$000	\$000	\$000
30 June 2010				
Financial assets				
Derivatives	1,960	0	1,960	0
Equity investments	1,012	1,012	0	0
Financial liabilities				
Derivatives	2,240	0	2,240	0
30 June 2011				
Financial assets				
Derivatives	2,900	0	2,900	0
Equity investments	1,107	1,107	0	0
Financial liabilities				
Derivatives	1,740	0	1,740	0

NZ IFRS 7.27B(b),(c)

There were no transfers between the different levels of the fair value hierarchy.⁴⁷

28C Financial instrument risks

NZ IFRS 7.31

The CSE's activities expose it to a variety of financial instrument risks, including market risk, credit risk, and liquidity risk. The CSE has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

NZ IFRS 7.33(a),(b)

Market risk

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The CSE's equity investments are exposed to price risk because they are listed investments. The CSE's equity investments are held for strategic purposes as opposed to generating a financial return.

NZ IFRS 7.40

The equity investments are publicly traded. If the share price at 30 June 2011 had fluctuated by plus or minus 0.5%, the effect would have been to increase/decrease other comprehensive income by \$5,535 (2010 \$5,006).

⁴⁶ A tabular format must be used in presenting the fair value hierarchy quantitative disclosures unless another format is more appropriate.

⁴⁷ Significant transfers between the different fair value hierarchy levels must be identified and the reasons for those transfers disclosed. Transfers into each level shall be disclosed and discussed separately from transfers out of each level (NZ IFRS 7.27B(b),(c)).

28C Financial instrument risks (continued)

Fair value interest rate risk

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The CSE's exposure to fair value interest rate risk is limited to its bank deposits which are held at fixed rates of interest. The CSE does not actively manage its exposure to fair value interest rate risk.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Investments and borrowings issued at variable interest rates expose the CSE to cash flow interest rate risk.

The CSE's investment policy requires a spread of investment maturity dates to limit exposure to short-term interest rate movements. The CSE currently has no variable interest rate investments.

The CSE's borrowing policy requires a spread of interest rate repricing dates on borrowings to limit the exposure to short-term interest rate movements. The CSE's borrowing policy does not permit the use of interest rate derivatives to manage cash flow interest rate risk.

Sensitivity analysis

NZ IFRS 7.40

As at 30 June 2011, if the 90-day bank bill rate had been 50 basis points higher or lower, with all other variables held constant, the surplus/deficit for the year would have been \$88,000 (2010 \$130,000) lower/higher. This movement is attributable to increased or decreased interest expense on floating rate loans. The sensitivity is lower in 2011 than 2010 because of a reduction in outstanding borrowings that has occurred as the CSE's loans have matured and been repaid.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The CSE purchases goods and services overseas which require it to enter into transactions denominated in foreign currencies. The CSE also holds small balances of AUD, GBP, and USD at call with international banks in order to settle transactions denominated in foreign currencies when logistically necessary. As a result of these activities, exposure to currency risk arises.

The CSE's policy is to manage foreign currency risks arising from contractual commitments and liabilities by entering into foreign exchange forward contracts to manage the foreign currency risk exposure.

NZ IFRS 7.40

Sensitivity analysis⁴⁸

As at 30 June 2011, if the NZ dollar had weakened/strengthened by 5% against the US dollar with all other variables held constant, the surplus for the year would have been:

- \$14,000 (2010 \$20,000) lower if the NZ dollar had weakened.
- \$15,000 (2010 \$22,500) higher if the NZ dollar had strengthened.

This movement is attributable to foreign exchange gains/losses on translation of US dollar denominated creditors and bank balances.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the CSE, causing it to incur a loss.

Due to the timing of its cash inflows and outflows, CSE invests surplus cash with registered banks.

The CSE has processes in place to review the credit quality of customers prior to the granting of credit.

NZ IFRS 7.36(a)

NZ IFRS 7.36(b),37(c)

NZ IFRS 7 Appdx B10(b)

NZ IFRS 7.36(c)

In the normal course of business, the CSE is exposed to credit risk from cash and term deposits with banks, debtors and other receivables, and derivative financial instrument assets. For each of these, the maximum credit exposure is best represented by the carrying amount in the statement of financial position.

The CSE limits the amount of credit exposure to any one financial institution for term deposits to no more than 25% of total investments held. The CSE invests funds and enters into derivative financial instruments only with registered banks that have a Standard and Poor's credit rating of at least A2 for short term and A- for long-term investments. The CSE has experienced no defaults of interest or principal payments for term deposits.

The CSE holds no collateral or other credit enhancements for financial instruments that give rise to credit risk.

⁴⁸ A sensitivity analysis for derivative financial instruments is required when the aggregated fair value of derivatives are significant.

28C Financial instrument risks (continued)

NZ IFRS 7.36(c)

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard and Poor's credit ratings (if available) or to historical information about counterparty default rates:

	2011	2010
	\$000	\$000
COUNTERPARTIES WITH CREDIT RATINGS		
Cash at bank and term deposits		
AA	40,850	58,130
AA-	44,459	158,175
<i>Total cash at bank and term deposits</i>	85,309	216,305
Derivative financial instrument assets		
AA	2,900	1,960
COUNTERPARTIES WITHOUT CREDIT RATINGS		
Debtors and other receivables		
Existing counterparty with no defaults in the past	7,998	2,328
Existing counterparty with defaults in the past	348	202
<i>Total debtors and other receivables</i>	8,346	2,530

Liquidity risk

NZ IFRS 7.39(c)

Management of liquidity risk

Liquidity risk is the risk that the CSE will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and the ability to close out market positions.

The CSE mostly manages liquidity risk by continuously monitoring forecast and actual cash flow requirements.

Contractual maturity analysis of financial liabilities, excluding derivatives

NZ IFRS 7.39(a)

The table below analyses financial liabilities (excluding derivatives) into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate of the instrument at balance date. The amounts disclosed are the contractual undiscounted cash flows.⁴⁹

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	Later than 1 year
	\$000	\$000	\$000	\$000	\$000
2010					
Creditors and other payables	34,824	34,824	34,824	0	0
Finance leases	5,706	6,234	1,162	1,162	3,910
Secured loans	26,088	32,629	8,858	1,043	22,728
Total	66,618	73,687	44,844	2,205	26,638
2011					
Creditors and other payables	44,706	44,706	44,706	0	0
Finance leases	7,360	7,949	1,249	1,249	5,451
Secured loans	17,576	21,923	7,986	1,050	12,887
Total	69,642	74,578	53,941	2,299	18,338

⁴⁹ NZ IFRS 7 does not prescribe the time bands to use. Entities will need to exercise judgement in determining the appropriate time bands to use when presenting the contractual maturity analysis.

28C Financial instrument risks (continued)

Contractual maturity analysis of derivative financial liabilities

NZ IFRS 7.39(b), B11D(d)

The table below analyses derivative financial instrument liabilities that are settled net and all gross settled derivatives⁵⁰ into their relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Liability carrying amount	Asset carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years
	NZ\$ \$000	NZ\$ \$000	NZ\$ \$000	NZ\$ \$000	NZ\$ \$000	NZ\$ \$000
2010						
Forward foreign exchange contracts	2,240	1,960				
-outflow			13,333	10,471	2,862	0
-inflow			14,025	11,547	2,478	0
2011						
Forward foreign exchange contracts	1,740	2,900				
-outflow			7,690	5,478	2,212	0
-inflow			7,144	5,589	1,555	0

29 Capital management

NZ IAS 1.134

The CSE's capital is its equity, which comprises accumulated funds and revaluation reserves. Equity is represented by net assets.

The CSE is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives.

The CSE manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments, and general financial dealings to ensure the CSE effectively achieves its objectives and purpose, while remaining a going concern.

30 Explanation of major variances against budget

NZ IAS 1 NZ 46.1

Explanations for major variances from the CSE's budgeted figures in the statement of intent are as follows:

Statement of comprehensive income

Other income

Other revenue was less than budgeted by \$3m because other grants were \$2.5m less than expected. Due to prioritisation of Crown deliverables, the CSE was unable to apply for promotional funding for certain development initiatives.

Other expenses

Other expenses were less than budgeted by \$14.8m mainly due to delays in implementing the "Whole of New Zealand" development initiative. The delay in this initiative is mainly attributable to difficulty in securing consultants for project delivery.

Gain on property revaluations

Property revaluation gains were less than budgeted by \$16.6m due to property valuations not moving to the extent anticipated by management

Statement of financial position

Employee entitlements

Employee entitlements were less than budgeted by \$9.3m largely due to management's efforts to encourage the taking of leave and reduce the level of untaken leave, and management assuming more employees would qualify for retirement and long-service leave than that calculated in the actuarial valuation as at 30 June 2011.

⁵⁰ Entities shall include all gross settled derivative financial instruments regardless of whether their fair value is an asset or a liability.

30 Explanation of major variances against budget (continued)

Provisions

Provisions were less than budgeted by \$4.3m due to \$2.5m of restructuring, and \$1.5m lease make-good payments being made earlier than expected.

Statement of changes in cash flows

Payments to suppliers were less than budgeted by \$16.7m due to delays in implementing the “Whole of New Zealand” development initiative. Consequently, cash outflows for payments to consultants were less than budgeted.

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OUR SERVICES

Audit New Zealand has a unique position as a business unit of the Controller and Auditor-General (the Auditor-General). The core business of Audit New Zealand is carrying out annual audits across the New Zealand public sector. We are also an experienced, trusted and independent provider of assurance services, in "real-time" or retrospectively. These services are provided under Section 17 of the Public Audit Act 2001.

Our core strengths include provision of assurance services over:

- asset management;
- contract management;
- project management;
- tendering and procurement; and
- taxation.

We can also help public sector organisations with review and assurance services for governance arrangements, risk management practices, performance management and reporting, sensitive and discretionary expenditure, and investigations of probity and other sensitive matters where independence may be essential.

We are the Auditor-General's in-house specialists. We support her work by providing public sector organisations with greater levels of assurance in areas that really matter.

Our assurance services complement our audit work. Our independence and integrity are fundamental to us. You can be confident that our assurance work meets international standards of auditor independence.

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